



Brian J. Benison
Associate Director
Federal Regulatory

SBC Telecommunications, Inc.
1401 I Street, N.W., Suite 1100
Washington, D.C. 20005
Phone 202 526-8847
Fax 202 408-4809
Email: bbeniso@corp.sbc.com

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September 6, 2002

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SEP - 6 2002

Memorandum of Ex Parte Presentation

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Re: CC Docket No. 01-338, Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers;
CC Docket No. 96-98, Implementation of the Local Competition Provisions in the Telecommunications Act of 1996; and
CC Docket No. 98-147, Deployment of Wireline Services Offering Advanced Telecommunications Capability


Dear Ms. Dortch:

On September 5, 2002, Edward Whitacre, Chairman and Chief Executive Officer, William Daley, President; Randall Stephenson, Senior Executive Vice President and Chief Financial Officer; James D. Ellis, Senior Executive Vice President and General Counsel; and James C. Smith, Senior Vice President, representing SBC Telecommunications, Inc., met with Chairman Michael Powell; Marsha MacBride, FCC Chief of Staff; and Christopher Libertelli, Chairman Powell's Legal Advisor for Wireline Competition.

The purpose of the meeting was to discuss issues associated with the financial and investment impacts of the UNE Platform. The attached material was discussed during the course of the meeting.

Please contact the undersigned at (202) 326-8847 should you have any questions.

Sincerely,

Brian Lenison 

Attachment

cc: Chairman Powell
M. MacBride
C. Libertelli

UNE-P: Impacts and Implications

Prepared for the
Federal Communications Commission



SBC Com

Agenda

Overview

Ed Whitacre

Financial Review

Randall Stephenson

Financial Trends
UNE-P Impacts

Summary

Bill Daley

Overview

Ed Whitacre
Chairman and Chief Executive Officer
SBC Communications Inc.

Financial Review

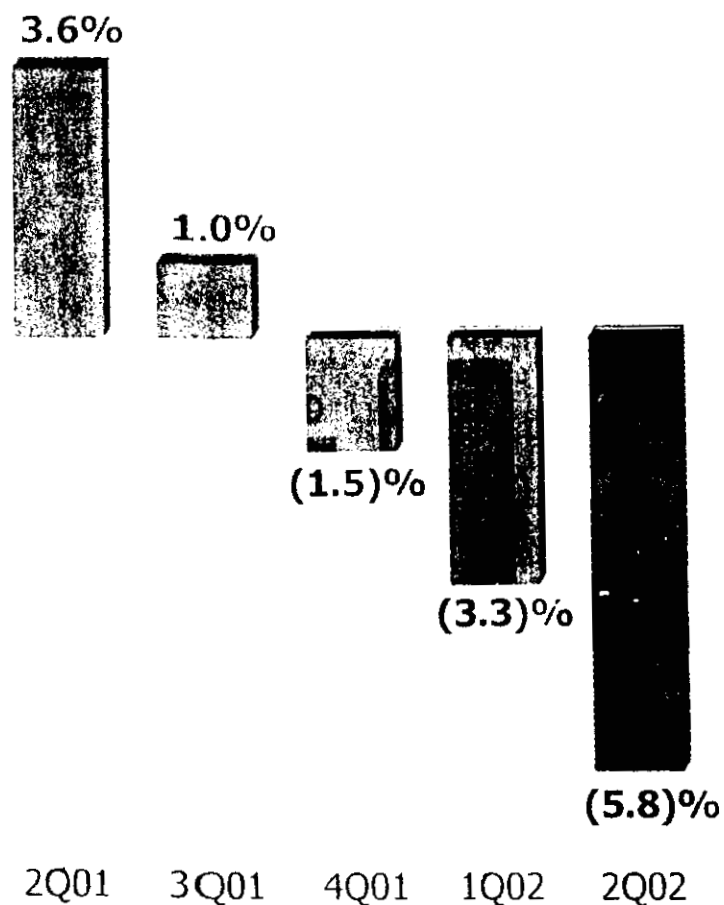
Financial Trends

UNE-P Impacts

Randall Stephenson
Chief Financial Officer
SBC Communications Inc.

Wireline Revenues

**SBC Wireline Revenues,
YOY Growth Rates**



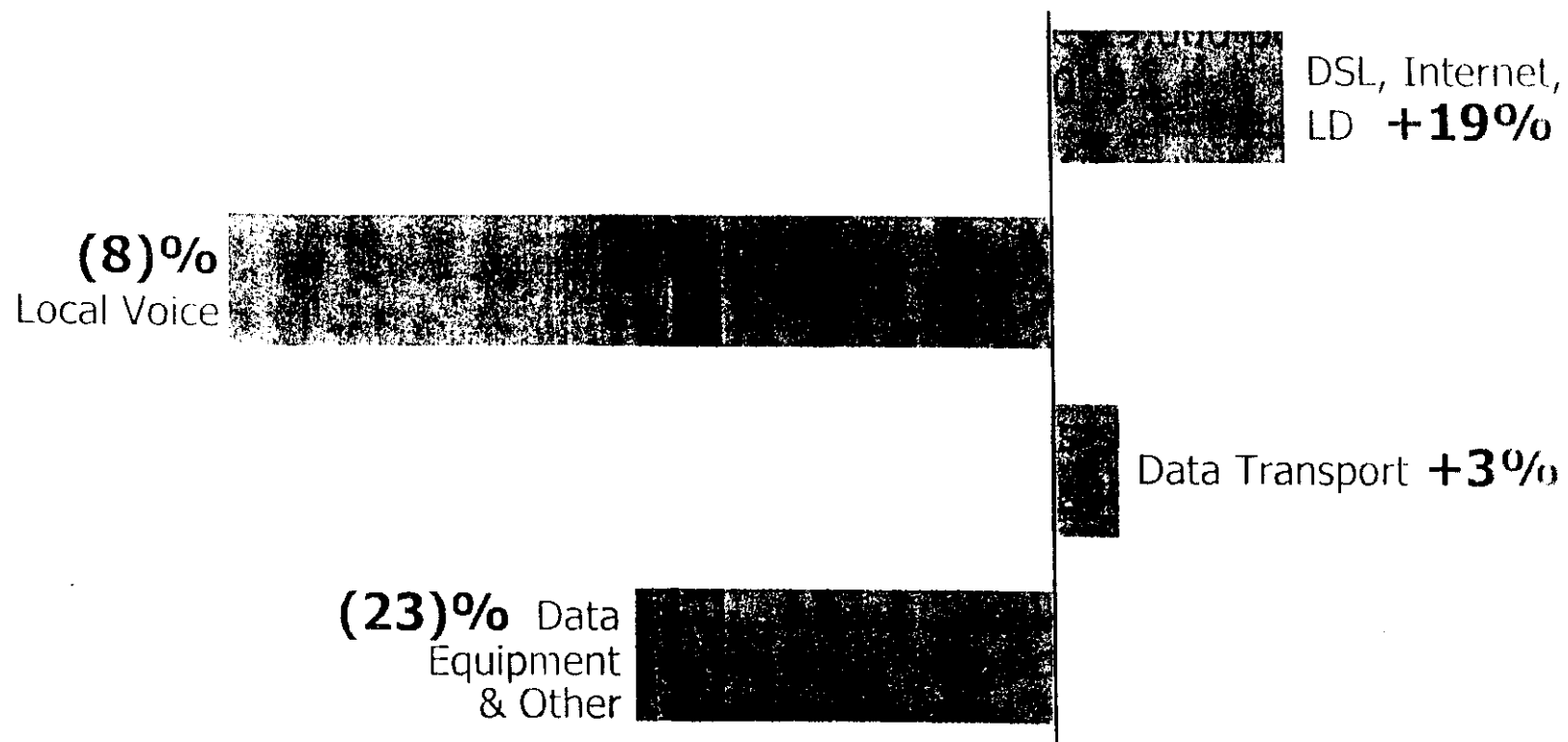
Down more than \$1 billion
over the past three quarters.

More than half of that loss
came in the most recent
quarter.

Assuming annual revenue
declines continue at current
pace (5.8)% -- no further
acceleration -- over the next
four quarters, we will lose
another \$2.3 billion from our
wireline revenue stream.

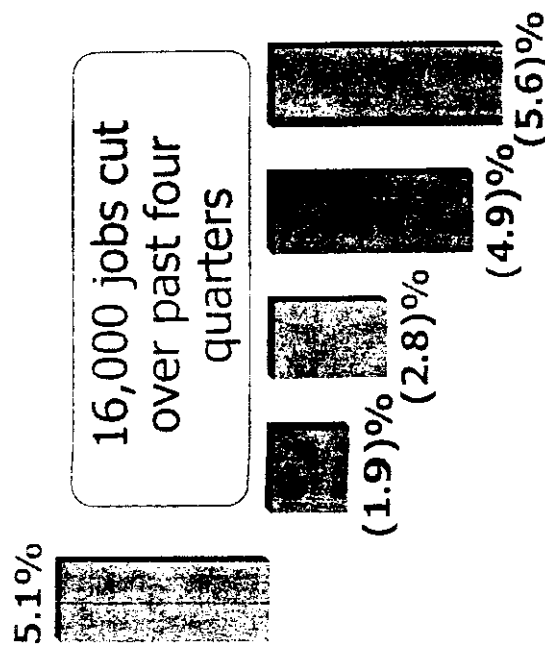
Local Voice Driving Revenue Decline

2Q02/2Q01 Changes By Product Group



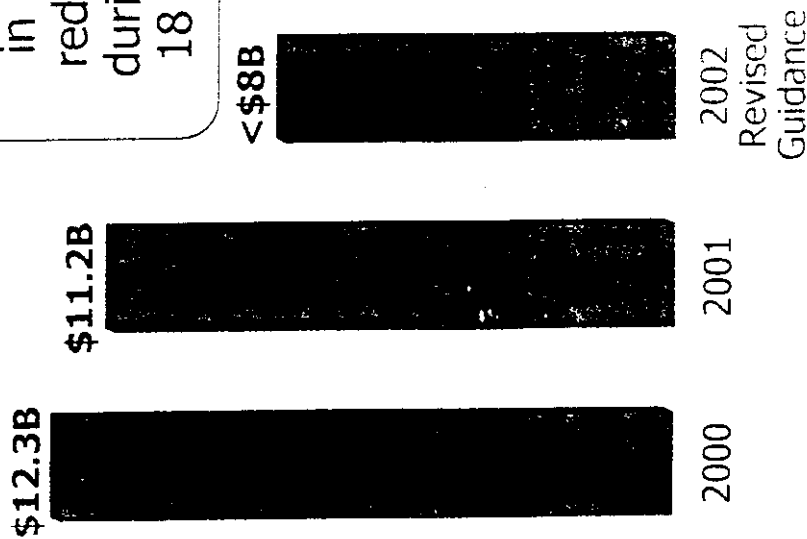
Cutbacks in Jobs and Investment

SBC Wireline Cash Operating Expenses,
YOY Growth Rates



SBC Annual Capital Investment

Nearly \$5 billion in cap ex reductions during past 18 months



A Shrinking Business

SBC Wireline Results

	2Q02/2Q01
Revenues	(5.8)%
Cash Operating Expenses	(5.6)%
Depreciation & Amortization	1.2%
Operating Income	(12.6)%
Capital Investment	(41)%

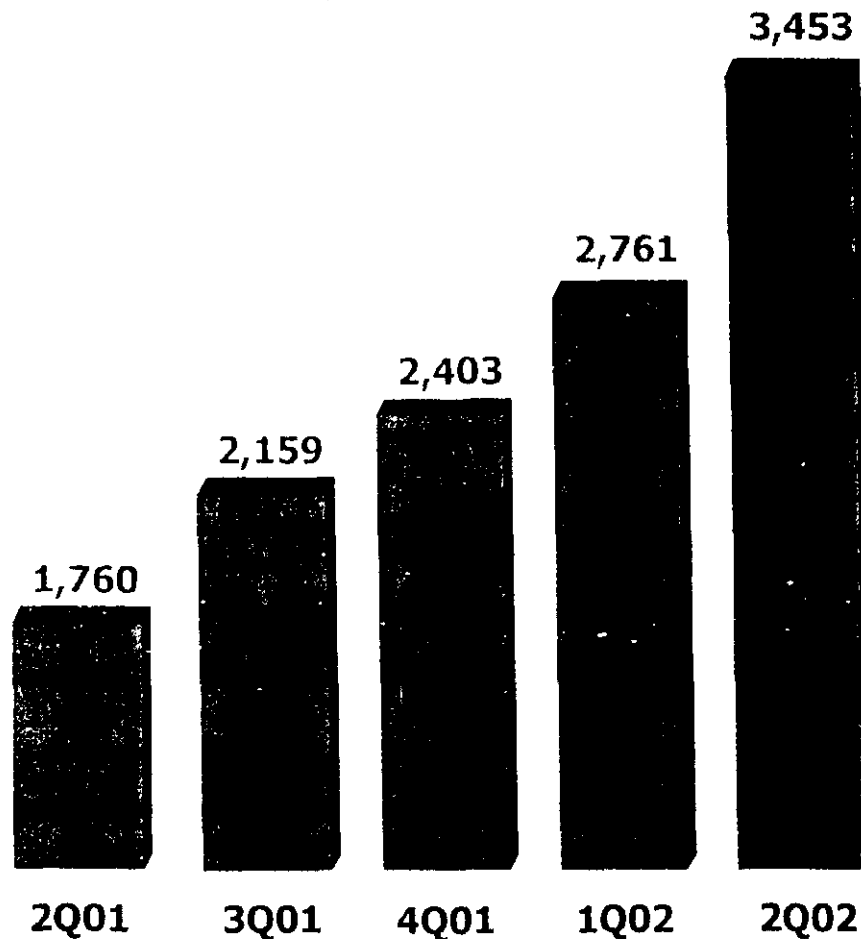
Financial Review

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Randall Stephenson
Chief Financial Officer
SBC Communications Inc.

UNE-P Adoption

SBC UNE-P Lines In Service
2Q 2002
(in thousands)



Over the past year, UNE-P lines in service have doubled.

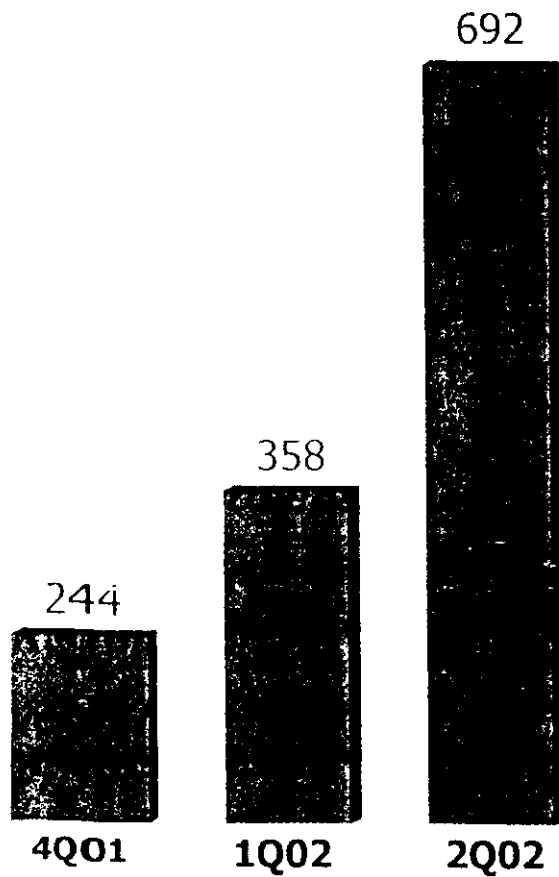
We have lost 3.5 million lines... nearly equivalent to losing the state of Ohio.

SBC still has 1 million resale lines likely to be converted to UNE-P.

SBC's market share is currently 85%. Projected to be 66% by end of 2003.

UNE-P Acceleration

**SBC UNE-P Lines Added
Per Quarter – 13 States**
(in thousands)



SBC loses 12,000 lines per day to UNE-P. Projected to be 29,000 per day by end of 2003.

UNE-P lines added in 2Q02 were more than 70% greater than any previous quarter.

As states have dropped prices, facilities-based competition has lagged and UNE-P has become the dominant means to compete with SBC.

Competition Trends

Lines Added 13-States

600K

400K

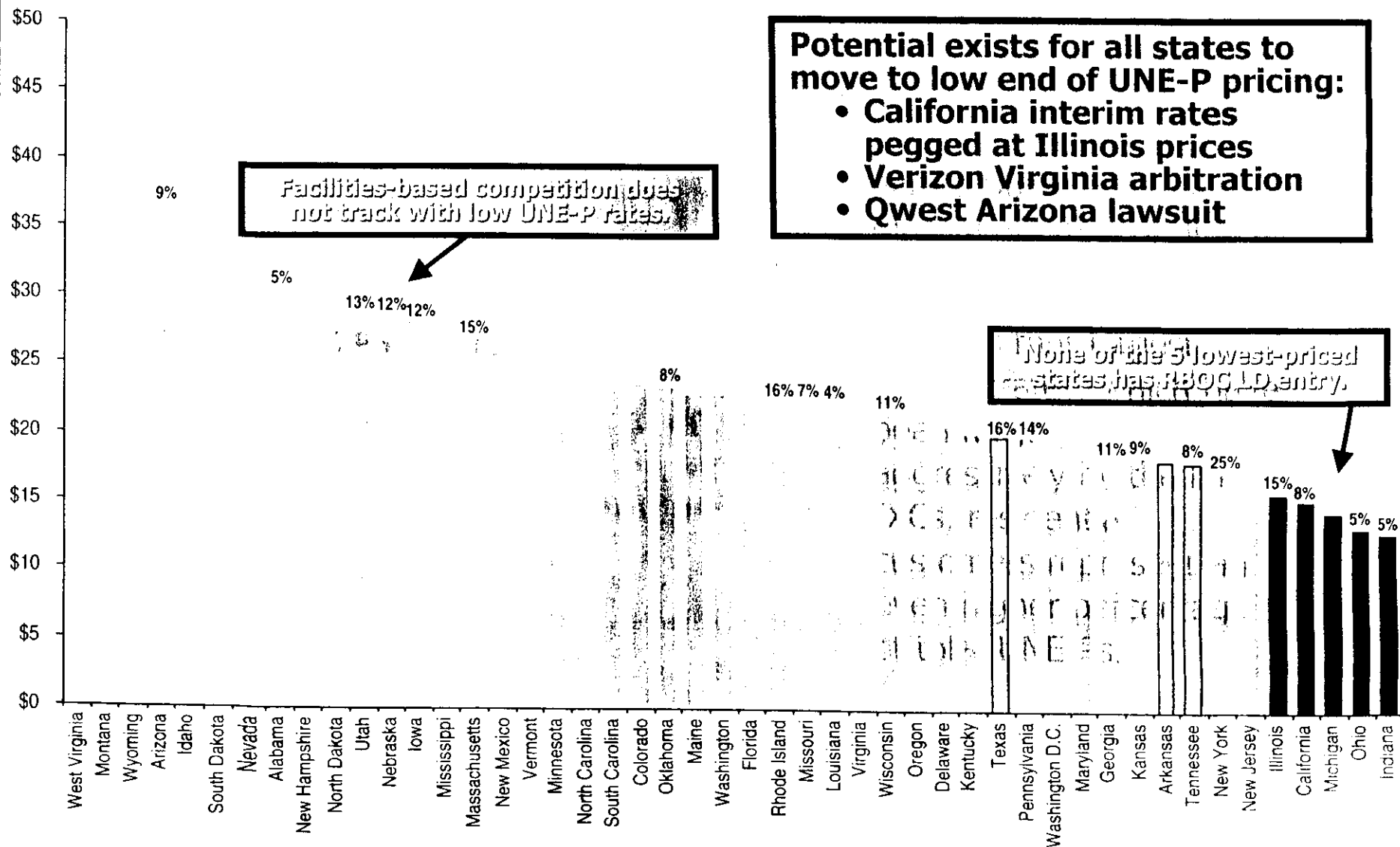
200K

1Q01

2Q02

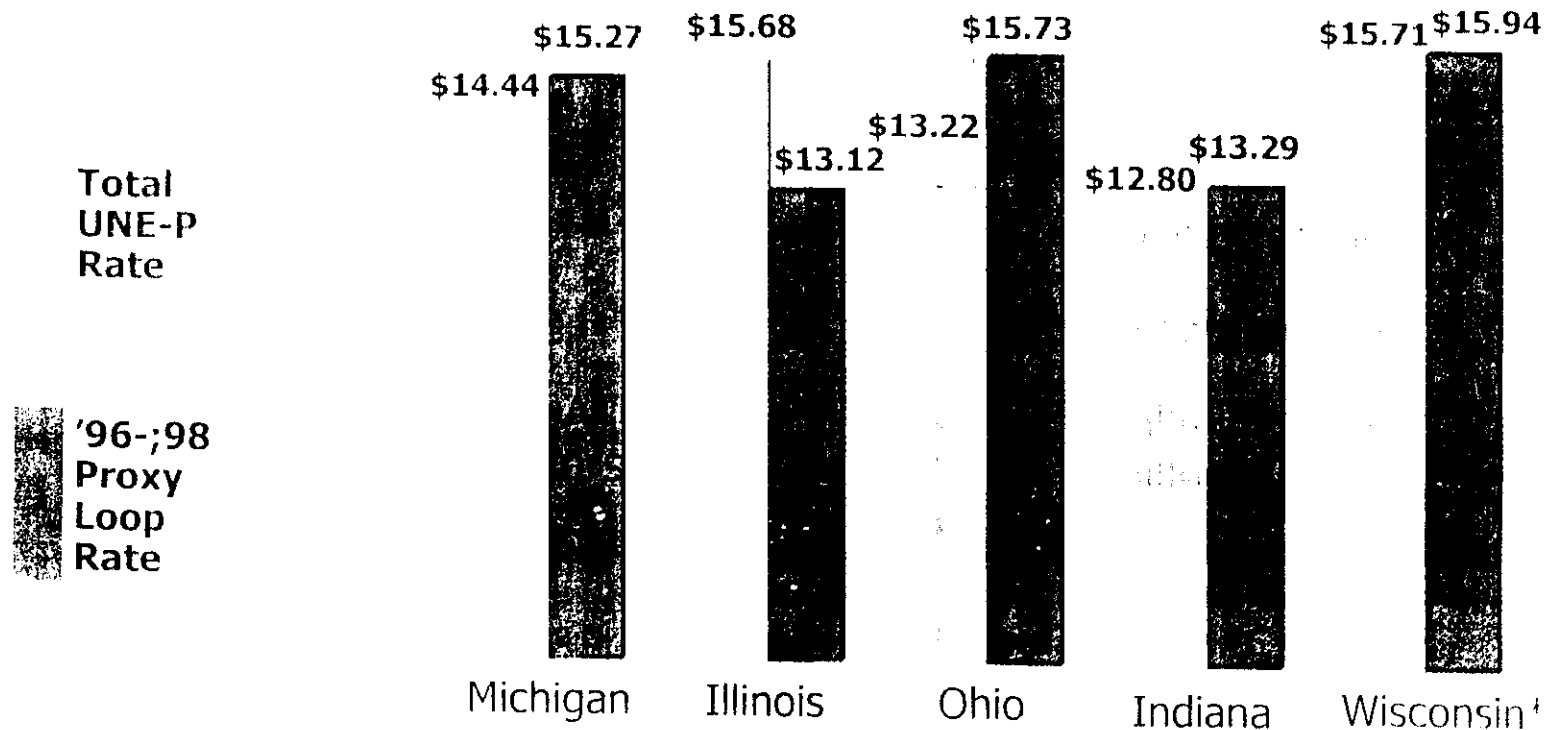
Facilities Based Lines Added

The Five Lowest-Priced UNE-P States Are All SBC Markets



Percentage of end-user switched access line served by reporting competitive local exchange carriers source: FCC Industry Analysis Division Common Carrier Bureau, "Local Telephone Competition" Status as of December 31, 2001

UNE-P Rates vs FCC Proxy Loop Rates



* Estimated impact of pending order.

IXCs Exploit Very Large UNE-P Discounts

	Total Recurring UNE-P Rate*	Discount From Retail Residential	Below Non-SBC National Ave
Illinois	\$15.68	55%	39%
Michigan	\$14.44	63%	44%
Ohio	\$13.22	57%	48%
Indiana	\$12.80	62%	50%
California	\$15.24	47%	40%
Wisconsin**	\$15.71	48%	39%

**All have
recently
ordered
lower prices**

* Per Anna Marie Kovacs of Commerce Capital Markets, Inc. May report on UNE-P adjusted to reflect only recurring rates and recent rate changes.

** Estimated impact of pending order.

Simple Margin Transfer With No Investment

Ameritech Consumer 5-State Averages

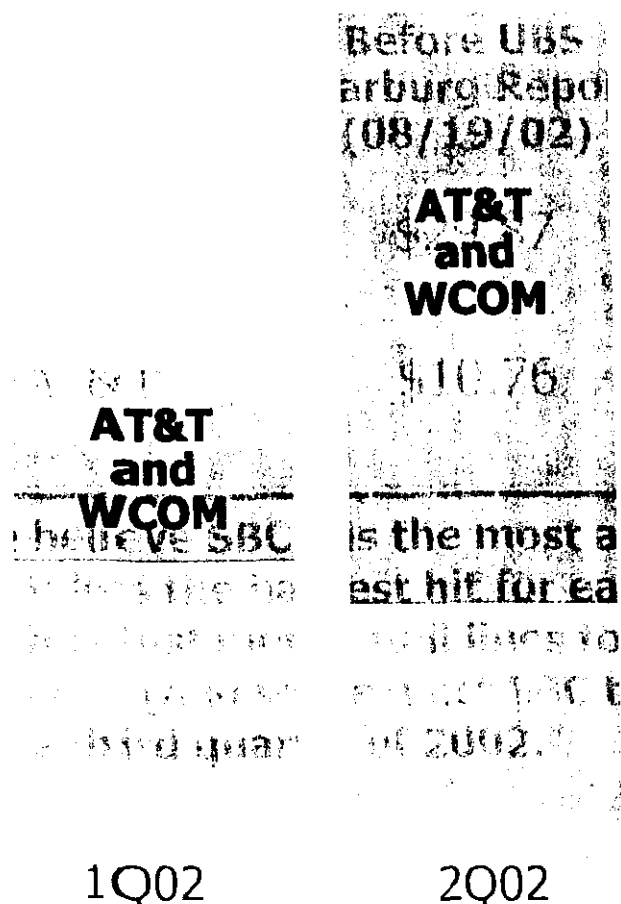
	<u>SBC Retail</u>	<u>SBC UNE-P</u>	<u>IXC Using SBC UNE-P</u>
Revenue	\$36	\$15	\$41
Expenses	*\$26	*\$26	**\$23
Operating Margin	\$10	\$(11)	\$18
Capital Investment	\$1,100	\$1,100	\$0
<i>Capital Investment</i>	✓	✓	□
<i>Service Quality Regulated</i>	✓	✓	□
<i>Universal Service Provider</i>	✓	✓	□

* Excludes cost associated with data services.

** UNE-P plus 20% SG&A.

UNE-P Predominantly Used by the Two Largest IXC's

SBC UNE-P Lines Added Per Quarter



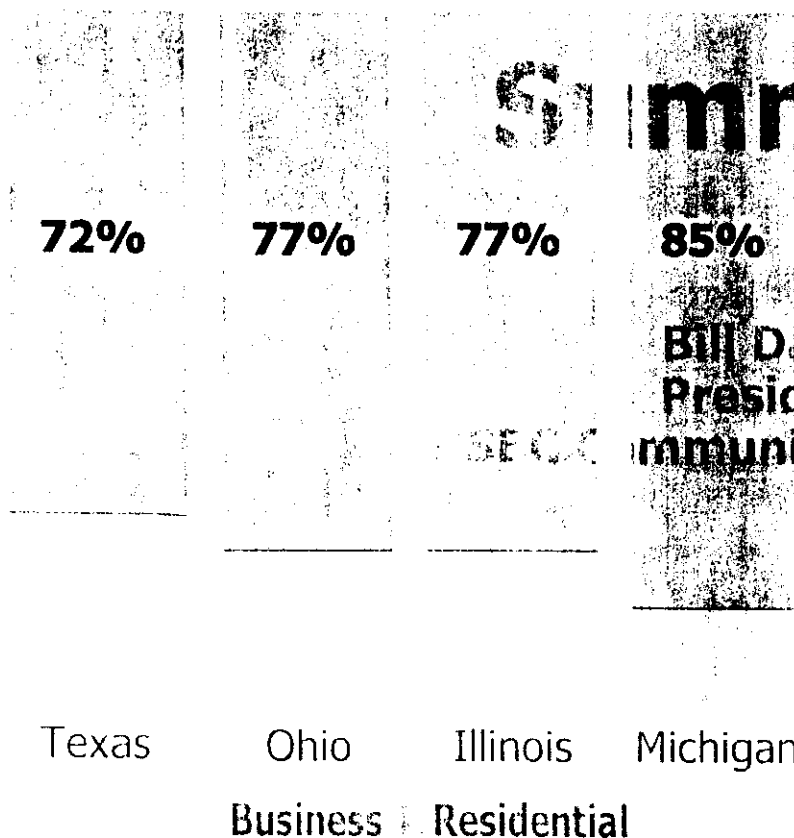
More than 70% of SBC's UNE-P lines added in 2Q02 were for the two largest IXC's.

From 1Q02 to 2Q02, UNE-P lines added for AT&T and WorldCom/MCI tripled while UNE-Ps added for others actually declined.

WorldCom receivables to SBC and its affiliates have grown to more than \$400 million.

Dominant Use of UNE-P: To Target Residential Customers

**SBC UNE-P Lines In Service
SBC's Four Largest UNE-P States**



Across SBC's 13 states, more than 70% of all UNE-P lines are residential.

In SBC's four largest UNE-P states, which have been targeted most aggressively by the large IXC's, residential customers represent an even higher percentage of total UNE-Ps.

IXC Lead Offers

(Ameritech states)

AT&T

Pricing: \$52.57 *

Local Service

Access line

Calling features (3)

Long Distance

Unlimited to other AT&T
residential consumers

MCI/WCOM

Pricing: \$49.99 *

Local Service

Access line

Calling features (5)

Long Distance

Unlimited long distance
calling

* Pricing includes interLATA long distance but excludes Subscriber Line Charge and other miscellaneous taxes and fees.

Source: Company's website

- MCI's offer is their lead offering "Neighborhood Complete" at \$49.99

- AT&T's offer includes their lead local "Call Plan Unlimited with 3 Feature Package Enhanced" at \$29.95-34.95 and their long distance offer "Unlimited Plan" at \$19.95. Offered in IL, OH and MI.

SBC Provides Residential Universal Service While IXC's "Cherry Pick" Profits

IXC offers target premium customers rather than universal service.

Ameritech Residential Customer Spending

	Ave Rev per Line	% of Total SBC Revenue	% of Total SBC Profit
IXCs			
Quartile 1	\$43-\$54	36%	72%
Quartile 2	\$36-\$43	29%	41%

SBC

Quartile 3

Quartile 4

\$24-\$36	21%	9%
\$0-\$24	14%	(22)%

SBC's resulting customer base will be unprofitable, with no funds for investment.

Clear IXC Strategy

No Capital Investment

"... gives AT&T Consumer unmatched leverage to create offers ..."

*Betsy Bernard,
President, AT&T Consumer*

"We're profitable everywhere we sell because we limit ... where we sell based on cost.... [W]e're to make it work."

*Wayne Huyard
COO, MCI*

"We do not expect that the growth of our business will require the levels of capital investment in fiber optics

and switches that existed in historical telecommunications facilities-based models."

*10-Q Filing
Z-Tel*

High Margins, Low Risk

"Our principle of maximizing cash requires that we only enter states that meet our gross margin requirements."

"We are not going into states where we don't have a ~~major presence of~~ on the local"

*Betsy Bernard,
President, AT&T Consumer*

Capital Market Reaction

Stock Prices

	Before UBS Warburg Report (08/19/02)	After UBS Warburg Report (08/23/02)	Percent Change
SBC	\$29.87	\$26.30	(12.0)%
AT&T	\$10.76	\$12.22	13.6%

"We believe SBC has the most attractive region for UNE-P providers. SBC takes the hardest hit for each retail line lost to UNE-P competitors ... SBC has lost more retail lines to UNE-P than any other Bell, at 3.45 million... [and we] expect SBC to lose 1 million retail lines to UNE-P in the third quarter of 2002."

- UBS Warburg

Summary

Bill Daley
President
SBC Communications Inc.

Next Steps

- **Current regulatory regime regarding UNE-P and pricing is unsustainable**
- **Turmoil in industry calls for quick and decisive action**
- **As long as we have carrier of last resort obligations, prices must be set to recover our costs**
- **There are many ways to solve this problem, but time is extremely short. Whatever direction the FCC moves, it must be effective in a very short period of time**